

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION
JUNE 30, 2007**

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK

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INDEPENDENT AUDITORS' REPORT

To the Board of Education of
School District of the City of Highland Park

We have audited the accompanying financial statements of the governmental activities, major funds, and the aggregate remaining fund information of the School District of the City of Highland Park as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District of the City of Highland Park's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, major funds, and the aggregate remaining fund information of the School District of the City of Highland Park as of June 30, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

**Independent Auditors' Report
(Continued)**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District of the City of Highland Park's basic financial statements. The combining nonmajor fund financial statements and schedule of bonded indebtedness, as identified in the table of contents, are not a required part of the basic financial statements, and are presented for purposes of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated November 15, 2007 on our consideration of School District of the City of Highland Park's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Alan L. Young, Assoc.

November 15, 2007

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007**

This section of the School District of the City of Highland Park's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District of the City of Highland Park financially as a whole. The district-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as non-major fund. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents. The annual report includes the following components:

*Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)*

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

*(Required Supplemental Information)
Budgetary Information for Major Funds*

Other Supplemental Information

Reporting the School District as a Whole – Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007
(Continued)**

**Reporting the School District as a Whole – District-wide Financial Statements –
(Continued)**

These two statements report the School District's net asset – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics, recreation, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Services and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliations included in the report.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007
(Continued)**

The School District as Trustees – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2007 and June 30, 2006.

TABLE 1

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	<u>(in millions)</u>	
Assets		
Current and Other Assets	\$13.80	\$12.90
Capital Assets	9.20	8.90
Total Assets	<u>23.00</u>	<u>21.80</u>
Liabilities		
Current Liabilities	10.05	9.30
Long Term Liabilities	7.05	7.30
Total Liabilities	<u>17.10</u>	<u>16.60</u>
Net Assets		
Invested in Property and equipments	7.20	7.10
Net of Related Debt	0.50	(0.10)
Restricted	(1.80)	(1.80)
Unrestricted	<u>5.90</u>	<u>5.20</u>
Total Net Assets	<u><u>\$5.90</u></u>	<u><u>\$5.20</u></u>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007
(Continued)**

The School District as a Whole – (Continued)

The above analysis focuses on the net assets (See Table 1). The change in net assets (See Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$5.9 million at June 30, 2007. Capital assets, net of related debt totaling \$7.2 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Unrestricted fund deficit was \$1.8 million at June 30, 2007.

The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in statement of activities (See Table 2), which shows the changes in net assets for fiscal year 2007 and 2006.

TABLE 2

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
	(in millions)	
Revenue		
Program Revenue:		
Charges for Service	\$0.50	\$1.00
Operating Grants	7.90	8.00
General Revenue:		
Property Taxes	2.60	2.90
State Foundation Allowance	21.60	20.50
Other	1.50	0.30
Total Revenue	<u>34.10</u>	<u>32.70</u>
 Functions/Program Expenses		
Instruction	\$16.00	\$15.50
Support Services	16.10	16.30
Community Services and Other	1.40	1.30
Food Service	0.40	0.50
Athletics	0.20	0.20
Interest on Long Term Debt and Other	0.20	0.50
Depreciation (Unallocated)	0.30	0.30
Total Functions/Program Expenses	<u>34.60</u>	<u>34.60</u>
 Increase/(Decrease) in Net Assets	<u>(\$0.50)</u>	<u>(\$1.90)</u>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007
(Continued)**

The School District as a Whole – (Continued)

As reported in the statement of activities, the cost of all our governmental activities this year was \$34.6 million. Certain activities were partially funded from those who benefited from the programs (approximately \$.5 million) or by other governments and organizations that subsidized certain programs with grants and contributions of (approximately \$8.0 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.6 million in taxes, \$21.6 million in State foundation allowance, and with approximately \$1.5 million of our other revenues, i.e., interest and general entitlements.

The School District experienced a decrease in net assets of \$.5 million. A key reason for the change in net assets was due to a decrease in foundation allowance and federal revenue and an overall increase in salary, retirement, and health insurance costs.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and other provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3.6 million, which is a decrease of \$2.0 million from last year. The primary reasons for the decrease are as follows:

- The School District's 2005 School Building & Site Bonds' fund spent approximately \$480,000 in construction manager fees and architect fees preparing for the construction work which took place over the summer.
- Instructional Services increased due to over staffing at beginning of fiscal year before it became known that enrollment would not meet expectations.
- Continued increase in employee health and retirement cost.

General Fund fund balance is available to fund costs related to allowable school operating purposes.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007
(Continued)**

The School District's Funds – (Continued)

Our Special Revenue Funds' fund balances remained approximately the same as in the prior year.

Combined, the Debt Service Funds showed a fund balance increase of approximately \$0.05 million. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Durant debt obligations are funded by annual State appropriation, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

The Capital Project Fund's fund decreased by approximately \$0.1 million as a result of covering capital improvement cost related to prior year general fund expenditures.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

The original budget was amended increasing total revenue by approximately \$1.7 million. This increase was based on an increase in the number of students and an expected increase in federal revenue. The original budget was amended increasing total expenditures by approximately \$3.3 million to reflect higher staffing levels and increasing retirement and healthcare costs.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007
(Continued)**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School District had approximately \$19.0 million invested in a broad range of capital assets, including land improvements, buildings, vehicles, furniture, and equipment.

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Land	\$12	\$12
Construction in Progress	479,691	0
Building and Building Improvements	8,354,068	8,602,437
Buses and Other Vehicles	185,352	6,222
Furniture and Equipment	196,498	249,451
Total Governmental Capital Assets (Net of Depreciation)	<u>\$9,215,621</u>	<u>\$8,858,122</u>

This year's additions of approximately \$0.7 million included building improvements and bus purchases. The School District began spending its 2005 School Building & Site Bond money during this fiscal year.

A Major capital improvement project to spend the remainder of the 2005 School Building & Site Bond money is planned for the year 2007-08. The estimated cost of the expenditure is approximately \$3.0 million. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the School District had approximately \$5.4 million in bonds outstanding versus approximately \$6.0 million in the previous year – a change of 10 percent. Those bonds consisted of the following:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
General Obligation Bonds	\$4,835,000	\$5,515,000
Durant Non Plaintiff Bonds	553,725	553,725
	<u>\$5,388,725</u>	<u>\$6,068,725</u>

The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District has no outstanding unqualified general obligation debt.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2007
(Continued)**

Debt – (Continued)

Other obligations include accrued vacation pay, sick leave, severance pay, notes, and other claims. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2007-2008 fiscal year operating budget. One of the most important factors affecting the budget is our student enrollment count. The District's State foundation revenue is determined by multiplying the blended student count by the District's allocated foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. Approximately 68 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot assess additional property tax revenue for general operations. Therefore, district funding is heavily dependent on the State's ability to fund local school operations.

Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the blended student count may exceed the estimate used in creating the 2007-2008 original budget by approximately 470 students. Once the final student count is validated, State law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

CONTRACTING THE DISTRICT'S FINANCIAL MANAGEMENT

Questions regarding this report should be directed to the Assistant Superintendent of Fiscal Integrity at (313) 957-3000, or by mail at 20 Bartlett Ave, Highland Park, MI 48203.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash & Investments (Note 3)	\$2,014,626
Receivables (Note 4)	7,622,027
Inventories	19,598
Prepaid Costs	697,096
Due from Private Purpose Trusts	40,842
Restricted Assets (Note 3 and Note 8)	3,405,756
Capital Assets - Net (Note 5)	9,215,621
Total Assets	<u>23,015,566</u>
Liabilities	
Accounts Payable	2,744,881
Accrued Payroll and Other Liabilities	2,484,357
Deferred Revenue (Note 4)	570,320
Note Payable (Note 13)	4,291,658
Long Term Liabilities (Note 7):	
Due Within One Year	730,000
Due in More than One Year	6,321,854
Total Liabilities	<u>17,143,070</u>
Net Assets	
Investments in Capital Assets - Net of Related Debt	7,213,496
Restricted :	
Debt Service	124,803
Capital Project	382,469
Unrestricted Deficit	<u>(1,848,272)</u>
Total Net Assets	<u><u>\$5,872,496</u></u>

The accompanying notes are an integral part of these financial statements.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

		<u>Program Revenue</u>		<u>Governmental</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Activities</u>
	<u>Expenses</u>			<u>Net (Expense)</u>
		<u>Services</u>	<u>Grants/</u>	<u>Revenue and</u>
			<u>Contributions</u>	<u>Changes in Net</u>
				<u>Assets</u>
Functions /Programs				
Primary Government - Governmental Activities :				
Instruction	\$15,997,864	\$0	\$3,581,708	(\$12,416,156)
Support Services	16,084,666	0	3,601,127	(12,483,539)
Food Services	1,413,430	279,570	696,172	(437,688)
Athletics	419,362	4,025	0	(415,337)
Community Services	161,495	241,638	36,167	116,310
Interest and Other Expenses	184,572	0	0	(184,572)
Depreciation (Unallocated)	327,117	0	0	(327,117)
Total Primary Governmental Activities	<u>34,588,506</u>	<u>525,233</u>	<u>7,915,174</u>	<u>(26,148,099)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,784,529
Property Taxes, Levied for Debt Purposes				200,591
Property Taxes, Levied for Capital Projects				654,502
Other Revenue				1,076,672
State Aid not Restricted to Specific Purposes				21,623,588
Interest and Investment Earnings				317,879
Total General Revenues				<u>25,657,761</u>
Change in Net Assets				(490,338)
Net Assets - Beginning of the Year, as Restated				<u>6,362,834</u>
Net Assets - End of the Year				<u><u>\$5,872,496</u></u>

The accompanying notes are an integral part of these financial statements.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	General Fund	Capital Projects Funds - 2005 School Building & Site Project	Other Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Cash & Investments (Note 3)	\$1,319,089	\$0	\$695,537	\$2,014,626
Restricted Assets (Note 8)	0	3,324,089	81,667	3,405,756
Receivables (Note 4)	7,056,599	13,369	552,059	7,622,027
Due from Other Funds (Note 6)	1,033,259	0	563,147	1,596,406
Inventories	19,598	0	0	19,598
Prepaid Costs	697,096	0	0	697,096
Total Assets	\$10,125,641	\$3,337,458	\$1,892,410	\$15,355,509
<u>Liabilities and Fund Balances</u>				
Liabilities				
Accounts Payable	\$2,647,495	\$0	\$97,386	\$2,744,881
Accrued Payroll and Other Liabilities	2,432,300	0	0	2,432,300
Notes Payable (Note 13)	4,291,658	0	0	4,291,658
Due to Other Funds (Note 6)	563,147	308,606	683,811	1,555,564
Deferred Revenue (Note 4)	751,833	0	0	751,833
Total Liabilities	10,686,433	308,606	781,197	11,776,236
Fund Balances				
Reserved for:				
Debt Service Fund	0	0	124,803	124,803
Inventories	19,598	0	0	19,598
Prepaid Costs	697,096	0	0	697,096
Designated:				
Contingency	0	0	0	0
Technology Equipment Projects	0	0	(285,291)	(285,291)
Energy Bond Project	0	0	11,263	11,263
Sinking Fund Project	0	0	766,853	766,853
Durant Projects	0	0	188,456	188,456
2005 School & Building Project	0	3,028,852	0	3,028,852
2005 School & Building Bond	0	0	176,572	176,572
Other Capital Projects	0	0	110,993	110,993
Unreserved - Undesignated - Reported in:				
General Fund	(1,277,486)	0	0	(1,277,486)
Special Revenue Funds	0	0	17,564	17,564
Total Fund Balances	(560,792)	3,028,852	1,111,213	3,579,273
Total Liabilities and Fund Balances	\$10,125,641	\$3,337,458	\$1,892,410	\$15,355,509

The accompanying notes are an integral part of these financial statement.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
YEAR ENDED JUNE 30, 2007**

Fund Balances - Total Governmental Funds			\$3,579,273
Amount Reported for Governmental Activities in the Statement of Net Assets are different because:			
Capital Assets used in Governmental Activities are not Financial Resources and are not Reported in the Governmental Funds:			
The Cost of Capital Assets	\$19,050,331		
Accumulated Depreciation	<u>(9,834,710)</u>	9,215,621	
Accrued Interest Payable is not included as a Liability in Governmental Funds			(52,057)
Other Long Term Assets not available to pay current period Expenditures therefore Deferred in the Governmental Funds			181,513
Long - Term Liabilities are not due and payable in the current period and are reported in the Governmental Funds:			
Bond Payable	(5,388,725)		
Compensated Absences and Severance Pay	(1,138,969)		
Unemployment Payable	(42,303)		
Liability for Self-Insurance Claim	<u>(481,857)</u>	<u>(7,051,854)</u>	
Net Assets - Governmental Activities			<u>\$5,872,496</u>

The accompanying notes are an integral part of these financial statements.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
GOVERNMENTAL FUNDS
STATEMENTS OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
JUNE 30, 2007

	General Fund	Capital Projects Fund- 2005 School Building & Site Bonds	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local Sources	\$2,590,904	\$171,208	\$1,219,342	\$3,981,454
State Sources	24,347,337	0	58,962	24,406,299
Federal Sources	4,708,051	0	637,209	5,345,260
Total Revenue	<u>31,646,292</u>	<u>171,208</u>	<u>1,915,513</u>	<u>33,733,013</u>
Expenditures				
Current:				
Instruction	15,997,864	0	0	15,997,864
Support Services	16,084,666	0	0	16,084,666
Community Services	161,495	0	0	161,495
Food Service	0	0	1,413,430	1,413,430
Athletics	0	0	419,362	419,362
Debt Service:				
Principal	0	0	680,000	680,000
Interest	0	0	254,049	254,049
Other	0	0	625	625
Capital Outlay	0	672,816	62,076	734,892
Total Expenditures	<u>32,244,025</u>	<u>672,816</u>	<u>2,829,542</u>	<u>35,746,383</u>
Excess (Deficiency) of Revenue Over Expenditures	(597,733)	(501,608)	(914,029)	(2,013,370)
Other Financing Sources (Uses)				
Transfer In	0	0	1,628,625	1,628,625
Transfer Out	(852,625)	0	(776,000)	(1,628,625)
Total Other Financing Sources (Uses)	<u>(852,625)</u>	<u>0</u>	<u>852,625</u>	<u>0</u>
Net Changes in Fund Balances	(1,450,358)	(501,608)	(61,404)	(2,013,370)
Prior Period Adjustment	804,261	0	379,596	1,183,857
Fund Balances - Beginning of the Year	<u>85,305</u>	<u>3,530,460</u>	<u>793,021</u>	<u>4,408,786</u>
Fund Balances - End of the Year	<u>(\$560,792)</u>	<u>\$3,028,852</u>	<u>\$1,111,213</u>	<u>\$3,579,273</u>

The accompanying notes are an integral part of these financial statements.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
GOVERNMENTAL FUNDS
RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007**

Net changes in Fund Balances - Total Governmental Funds (\$2,013,370)

Amount Reported for Governmental Activities in the Statement of
Activities are different because:

Governmental Funds report Capital Outlay as Expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as Depreciation:

Depreciation Expense	(327,117)	
Capitalized Capital Outlay	<u>689,826</u>	362,709

Revenue is Reported in the Statement of Activities at the time it is earned, without regard to timeliness of collection		111,887
--	--	---------

Expenses are recorded in the Statement of Activities at the time it is incurred, without regard to timeliness of payment		115,168
---	--	---------

Repayment of Bond Principal is an Expenditures in the Governmental Funds, but not in the Statement of Activities (Where it reduces Long - Term Debt)		680,000
--	--	---------

Compensated Absences, Long-Term Accrued Interest, and estimated Self Insured Claims are recorded when earned in the Statement of Activities. In the current year, more was earned when was paid out		<u>253,268</u>
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Change in Net Assets - Governmental Activities		<u><u>(\$490,338)</u></u>
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The accompanying notes are an integral part of these financial statements.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2007

	Private Purpose Trust	Student Activities Agency Fund
Assets		
Cash and Investments (Note 3)	\$268,441	\$100,396
Receivables - Net	<u>775</u>	<u>615</u>
Total Assets	<u>\$269,216</u>	<u>\$101,011</u>
Liabilities		
Due to General Fund (Note 6)	\$19,879	\$20,963
Due to Students Groups	<u>0</u>	<u>80,048</u>
Total Liabilities	<u>\$19,879</u>	<u>\$101,011</u>
Net Assets-Designated for Scholarships	<u>\$249,337</u>	

The accompanying notes are an integral part of these financial statements.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2007**

	<u>Private Purpose Trust</u>
Additions	
Donations	\$23,581
Interest	<u>11,917</u>
Total Additions	35,498
Deductions - Scholarships Awarded	<u>4,678</u>
Change in Net Assets	30,820
Net Assets - Beginning of the Year	<u>218,517</u>
Net Assets -End of the Year	<u><u>\$249,337</u></u>

The accompanying notes are an integral part of these financial statements.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District of the City of Highland Park (the "School District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships that determine which of the governmental organizations are a part of the School District's reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the School District's district-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** –(Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

District-wide Financial Statements – The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund Financial Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the School District.

Fiduciary fund statements are also reported using the economic resources measurement focus and accrual basis of accounting.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –(Continued)**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

The School District reports the following major governmental funds:

General Fund – The General Fund is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.

Capital Project Funds – 2005 School Building and Site Bond – This Capital Project Funds is used to record bond, interest and other revenue, and the disbursement of monies specifically designated for building remodeling. The funds operate until the purpose for which they were created is accomplished. This fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of 1351a of the State of Michigan's School Code.

Additionally, the School District reports the following fund types:

Technology Equipment Fund – The Technology Equipment Fund is used to account for certain insurance proceeds received and related interest revenue that are to be used for technology and related electrical upgrades. The fund operates until the purpose for which it was created is accomplished.

Other Capital Improvement Fund – The Other Capital Improvement Fund is used to account for certain insurance proceeds received and related interest revenue that are to be used for various capital improvements. The fund operates until the purpose for which it was created is accomplished.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The School District's Special Revenue Funds include the Food Services, and Athletics funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Debt Service Fund – The Debt Service Fund is used to record tax, interest, and other revenue for payment of interest, principal, and other bond expenditures on the School District's various bond issues.

Capital Project Funds – Other nonmajor Capital Projects Funds are used to record bond, interest and other revenue, and the disbursement of monies specifically designated for technology and major remodeling. The funds operate until the purpose for which they were created is accomplished.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –(Continued)**

Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)

Students Activities Agency Fund – The Student Activities Agency Fund is used to record transactions of student groups for school and school-related purposes. The funds are segregated and held in trust for the students.

Private Purpose Trust Fund – The Private Purpose Trust Fund is used to account for resources legally held in trust, including contributions received by the School District to be awarded in the form of scholarships.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments – Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is generally allocated to each fund based on relative participation in the pool.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amount. Property taxes are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are billed on July 1 for approximately 50 percent of the taxes and on December 1 for the remainder of the property taxes. Taxes are considered delinquent on March 1 of the following year. At this time, penalties and interest are assessed and the total obligation is added to the county tax rolls.

Inventories and Prepaid Costs – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both district-wide and fund financial statements.

Restricted Assets – Tax revenue collected has been set aside for debt principal and interest payments and parks and recreation preservation. These amounts have been classified as restricted assets.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –(Continued)**

Assets, Liabilities, and Net Assets or Equity (Continued)

Capital Assets – Capital assets, which include land, buildings, equipment and vehicles, are reported in the applicable governmental column in the district-wide financial statements. Capital assets are defined by the School District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Cost of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The School District does not have infrastructure-type assets.

Building, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and Building Additions	20-50 years
Buses and Other Vehicles	8 years
Furniture and Other Equipment	5 years

Compensated Absences – The liability for compensated absences reported in the district-wide statement consists of earned but unused accumulated vacation and sick leave benefits. A liability for these amounts is reported in governmental funds as it comes due for payment. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data – Comparative data is not included in the School District's financial statements.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

2) **STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Budgetary Information – Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund, and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the School District to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The General Fund budget was amended during the year to take into account changes in State and local source revenue and related program expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the School District incurred expenditures in the General Fund, which were in excess of the amounts budgeted as follows:

General Fund:	Budget	Actual
Instructional:		
Middle School	\$821,123	\$1,437,805
Special Education	2,814,648	2,902,190
Support Services:		
Library	321,832	339,047
School Administration	1,647,221	1,812,586
Personnel	392,287	414,270
Other Business Services	2,963,457	3,514,260
Central Services	447,949	550,478

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Fund Deficits – The School District has accumulated fund deficits in the Technology Equipments Capital Project fund and in the General Fund. A deficit elimination plan is being filed for the General Fund with the Michigan Department of Education.

3) DEPOSITS AND INVESTMENTS

State statutes and the School District's investment policy authorize the School District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The Board has authorized investments as listed in the State statutory authority as listed above.

The School District's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's investment policy requires that financial institutions be evaluated and only those with an acceptable risk level are used for the School District's deposits for custodial credit risk. At year end, the School District's deposit balance of \$106,131 had \$0 of bank deposits (certificates of deposit, checking and saving accounts) that were uninsured and uncollateralized. The School District evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The breakdown between deposits and investments for the School District is as follows:

Deposits (Checking and Savings Accounts and Certificates of Deposit)	(\$220,794)
Investments in Securities, Mutual funds, and Similar Vehicles	5,641,176
Total	<u><u>\$5,420,382</u></u>

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

3) DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's policy for custodial credit risk states custodial credit risk will be minimized by limiting investments to the types of securities allowed by state law and by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the School District will do business using the criteria established in the investment policy. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the School District's name.

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Government Cash Fund, Mutual Funds and Similar Vehicles in the Bank Investment Pools	<u>\$5,641,176</u>	Counterparty - Trust Department of the Bank

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The School District's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity.

The School District's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the School District's cash requirements.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

3) DEPOSITS AND INVESTMENTS (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices. At year end, the maturities of investments and the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturities</u>	<u>Rating</u>	<u>Rating Organization</u>
Government Cash Fund, Mutual Funds and Similar Vehicles in the Bank Investment Pools	<u>\$5,641,176</u>	Varies	A1/P1	Standards and Poor's Rating and Moody's Rating

Concentration of Credit Risk

The School District places no limit on the amount the School District may invest in any one issuer. The School District's policy minimizes concentration of credit risk by; and, requiring diversification of the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. State law and the School District's policy prohibit investment in foreign currency.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

4) RECEIVABLES

Receivables as of year end for the School District's individual major and nonmajor funds in the aggregate are as follows:

	General Fund	2005 School Building and Site Bond	Nonmajor Funds	Total
Receivables:				
Taxes	\$990,987	\$0	\$453,351	\$1,444,338
Accounts	218,814	0	1,044	219,858
Intergovernmental	5,844,481	0	94,395	5,938,876
Interest	2,317	13,369	3,269	18,955
Net Receivables	\$7,056,599	\$13,369	\$552,059	\$7,622,027

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant and Categorical Aid Payment Received Prior to meeting all Eligibility Requirements	<u>\$181,513</u>	<u>\$107,487</u>

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

5) CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance July 1, 2007
Capital Assets not being Depreciated:				
Land	\$12	\$0	\$0	\$12
Construction in Progress	0	479,691	0	479,691
Total Assets not being Depreciated	<u>12</u>	<u>479,691</u>	<u>0</u>	<u>479,703</u>
Capital Assets being Depreciated:				
Building and Building Improvements	16,960,371		0	16,960,371
Buses and Other Vehicles	635,785	193,125	0	828,910
Furniture and Equipment	770,849	17,010	6,512	781,347
Total Assets being Depreciated	<u>18,367,005</u>	<u>210,135</u>	<u>6,512</u>	<u>18,570,628</u>
Total Governmental Capital Assets	<u>18,367,017</u>	<u>689,826</u>	<u>6,512</u>	<u>19,050,331</u>
Accumulated Depreciation:				
Building and Building Improvements	\$8,357,934	\$248,369	\$0	\$8,606,303
Buses and Other Vehicles	629,563	13,995	0	643,558
Furniture and Equipment	521,398	64,753	1,302	584,849
Subtotal	<u>9,508,895</u>	<u>327,117</u>	<u>1,302</u>	<u>9,834,710</u>
Net Governmental Capital Assets	<u><u>\$8,858,122</u></u>	<u><u>\$362,709</u></u>	<u><u>\$5,210</u></u>	<u><u>\$9,215,621</u></u>

Depreciation expense was not charged to activities as the School District considers its assets to impact multiple activities and allocation is not practical.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

6) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Fund Due To	Funds Due From				Total
	General	2005 School Building and Site Project Fund	Nonmajor Governmental Funds	Fiduciary Funds	
General Fund	\$0	\$308,606	\$683,811	\$40,842	\$1,033,259
Nonmajor Governmental Funds	563,147	0	0	0	563,147
Total	\$563,147	\$308,606	\$683,811	\$40,842	\$1,596,406

These balances result from the time lag between the dates that Interfund goods and services are provided or reimbursable expenditures occur and when payments between funds are made.

Interfund Transfers

	Transfers Out		Total
	General Fund	Nonmajor Governmental Funds	
Transfers in - Nonmajor Governmental Funds	<u>(\$852,625)</u>	<u>\$852,625</u>	<u>\$0</u>

Transfers provided funding for debt service and subsidizing operations in the Food Services and Athletics Funds.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

7) LONG-TERM DEBT

The School District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District. Notes and installment purchase agreements are also general obligations of the School District. Other long-term obligations include compensated absences, termination benefits, and certain risk liabilities.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds	\$5,515,000	\$0	\$680,000	\$4,835,000	\$730,000
Durant Non-Plaintiff Bonds	553,725	0	0	553,725	0
Other Obligations	1,916,397	0	253,268	1,663,129	0
Total Governmental Activities	\$7,985,122	\$0	\$933,268	\$7,051,854	\$730,000

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

Year Ended June 30,	Governmental Activities		
	Principal	Interest	Total
2008	\$730,000	\$236,794	\$966,794
2009	827,190	197,237	1,024,427
2010	411,399	155,362	566,761
2011	152,276	157,497	309,773
2012	165,001	143,326	308,327
2013-2017	712,859	627,668	1,340,527
2018-2022	820,000	483,118	1,303,118
2023-2027	870,000	302,100	1,172,100
2028-2031	700,000	87,500	787,500
Total	\$5,388,725	\$2,390,602	\$7,779,327

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)**

7) LONG-TERM DEBT (Continued)

Governmental Activities

General obligation bonds consist of the following:

\$6,270,000 of 1997 Energy Conservation improvement bonds due in installments ranging from \$625,000 to \$695,000 through May 1, 2009; Interest at 5.00 percent to 5.25 percent.	\$1,355,000
\$3,580,000 of School Building and Site Bonds due in installments ranging from \$55,000 to \$175,000 through May 1, 2031; Interest at 3.625 percent to 5.00 percent.	<u>3,480,000</u>
Total Bonded Debt	<u><u>\$4,835,000</u></u>

Durant Non-Plaintiff Bond

Included in governmental activities general obligation bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) associated with this bond are funded by the State of Michigan via specifically appropriated State aid and will not require any School District debt levy or utilization of any other School District financial resources. The Durant Non-Plaintiff Bond is composed of the following issue:

\$937,778 Serial Bonds, due in Annual Installments of \$47,542 to \$84,684 through May 15, 2013; Interest at 4.76 Percent	<u><u>\$553,725</u></u>
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Other Governmental Activities Long-Term Obligations include the following:

Employee - Compensated Absences	\$1,138,969
Liability for Self -Insurance Claims	481,857
Unemployment Payable	<u>42,303</u>
Total	<u><u>\$1,663,129</u></u>

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

8) RESTRICTED ASSETS

The balances of the restricted asset accounts are as follows:

	<u>Governmental Activities</u>
Unspent Sinking Fund Millage, Bond Proceeds, and Related Interest	<u>\$3,405,756</u>

9) RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for property, torts, errors and omissions and certain medical claims and participates in the SET/SEG risk pool. The School District is partially self-insured for workers' compensation and certain medical claims up to certain retention limits. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the School District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

For risk retention situations (other than commercial coverage or risk-sharing pool), the School District estimates the liability for workers' compensation and certain medical claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are recorded in the district-wide financial statements.

10) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS

Plan Description – The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, P.O. Box 30171, Lansing, MI 48909-7671.

Funding Policy – Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

10) **DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS**
(Continued)

Funding Policy (Continued) - The pension benefit rate totals 16.34 percent for the period from July 1, 2006 through Sept 30, 2006 and 17.74 percent from October 1, 2006 through June 30, 2007 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS plan for the years ended June 30, 2007, 2006 and 2005 were \$2,502,360, \$2,449,328 and \$2,794,075 respectively.

Postemployment Benefits – Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental, and vision coverages. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS plan discussed above.

Durant Bond Changes for 2007

On May 10, 2007, the State of Michigan refinanced the Durant Bond obligations. This refinancing eliminated the requirement for the May 15, 2007 and 2008 bond payments by school districts. The Durant bonds, while issued by the district, are funded by Michigan's School Aid Fund. Essentially this refinancing reduces the current obligations from the school aid fund and was part of the strategy to balance the 2007 budget. Essentially there is no financial implication for the school district who issued Durant bonds. In 2007 and 2008 there will be no revenue source and no bond expenditure. This is similar to what happened in 2003, the last time the bonds were refinanced.

There are some financial statement implications however. In brief they are:

- The bond payment schedule must be revised. The state sent a new table to each affected district and this will be needed to revise the table in the statements. Note, the schedule given to the district is just a total payment schedule. The district should follow up with the state to obtain a revised P&I schedule, if one is displayed in the notes or schedules.
- Accrued Interest should be considered on the Government wide statements for the period from May 10, 2007 (refinance date) to June 30, 2007. To evaluate possible accrued interest you would determine that amount of interest to be paid with the May 15, 2009 payment and allocate it to this 51 day period. It is likely to be immaterial.

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007
(Continued)

**10) DEFINED BENEFIT PENSION PLAN AND POSTEMPLOYMENT BENEFITS
(Continued)**

Durant Bond Changes for 2007 (Continued)

- During the year ended June 30, 2007 the State of Michigan revised the payment schedule of the obligation. The total obligation was not changed and the revised payment schedule is reflected above,

11) SUBSEQUENT EVENT

On August 20, 2007, the School District borrowed \$6,200,000 at 3.680 percent annual interest on a Revenue Note, Series 2007B-2. The note, plus interest, is due August 20, 2008.

12) CONTINGENT LIABILITIES

The School District participates in various federal grant programs that are subject to monitoring and audit by grantor agencies. Any costs deemed by the grantor to be unallowable may constitute a liability to the school district. Management believes that any potentially disallowed amounts, if any, would be immaterial.

13) NOTES PAYABLE

On August 18, 2006, the School District borrowed \$4,140,000 in a State Aid Anticipation Note. The note bears interest at 3.68 percent and is due August 20, 2007. At June 30, 2007, the School District accrued interest of \$151,658 on this note.

14) PRIOR PERIOD ADJUSTMENT

During the 2007 audit, it was discovered that property tax revenue received within 60 days after the fiscal year end was not recorded as revenue and receivable in previous years. This was corrected in 2007 by restating the beginning 2006 fund balance. The effect of the error understated the revenue in the aggregate by \$1,183,857 in previous years. The net restatement to fund balance was \$804,261, \$89,418 and \$290,178 for the general fund, debt fund and sinking fund respectively.

REQUIRED SUPPLEMENTAL INFORMATION

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED JUNE 30, 2007**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue				
Local Sources:				
Property Taxes	\$2,175,455	\$2,175,455	\$1,784,529	(\$390,926)
Tuition	0	0	9,415	9,415
Interest from Investments	35,000	35,000	104,185	69,185
Miscellaneous Revenue	305,436	371,034	692,775	321,741
State Sources:				
Foundation	22,077,226	22,243,431	21,030,646	(1,212,785)
Categorical and Other	3,186,873	2,103,592	3,316,691	1,213,099
Federal Sources	5,776,770	8,336,631	4,708,051	(3,628,580)
Total Revenue	<u>33,556,760</u>	<u>35,265,143</u>	<u>31,646,292</u>	<u>(3,618,851)</u>
Expenditures- Current				
Instructional:				
Elementary	5,900,294	5,789,966	5,245,154	(544,812)
Middle School	918,976	821,123	1,437,805	616,682
High School	4,981,839	4,566,496	4,135,347	(431,149)
Pre School	670,537	585,153	428,986	(156,167)
Summer School	122,401	0	0	0
Special Education	2,049,245	2,814,648	2,902,190	87,542
Compensatory Education	508,993	1,101,217	630,481	(470,736)
Adult Education	411,099	617,760	448,474	(169,286)
Vocational Education	76,150	110,580	102,146	(8,434)
Other Added Needs	0	428,717	190,595	(238,122)
Other Basic Programs	0	529,277	476,686	(52,591)
Support Services:				
Attendance	64,776	160,073	20,111	(139,962)
Guidance	367,922	478,332	419,560	(58,772)
Other Pupil Support	1,611,202	1,304,115	534,056	(770,059)
Instruction Support	1,827,182	1,788,046	1,396,546	(391,500)
Library	524,806	321,832	339,047	17,215
Direction of Instruction	680,643	271,719	110,016	(161,703)
Other Instructional Staff Support	28,351	655,207	106,550	(548,657)
General Administration	1,079,907	1,218,892	1,109,076	(109,816)
Planning and Information	290,049	361,919	347,056	(14,863)
Personnel	765,349	392,287	414,270	21,983
School Administration	1,712,494	1,647,221	1,812,586	165,365
Business Office	892,782	325,133	132,855	(192,278)
Other Business Services	639,289	2,963,457	3,514,260	550,803
Maintenance and Operations	3,867,473	3,843,707	3,725,473	(118,234)
Transportation	1,001,727	1,245,243	1,219,166	(26,077)
Central Services	36,500	447,949	550,478	102,529
Data Processing	827,630	388,515	333,560	(54,955)
Community Services	350,755	343,088	161,495	(181,593)
Capital Outlay	0	0	0	0
Total Expenditures	<u>32,208,371</u>	<u>35,521,672</u>	<u>32,244,025</u>	<u>(3,277,647)</u>
Other Financing Uses				
Transfers In (Out)	(832,300)	(657,300)	(852,625)	(195,325)
Total Other Financing Uses	<u>(832,300)</u>	<u>(657,300)</u>	<u>(852,625)</u>	<u>(195,325)</u>
Net Change In Fund Balance	<u>516,089</u>	<u>(913,829)</u>	<u>(1,450,358)</u>	<u>(536,529)</u>
Fund Balance - July 1, 2006	85,305	85,305	85,305	0
Prior Period Adjustment	0	0	804,261	804,261
Fund Balance - June 30, 2007	<u>\$601,394</u>	<u>(\$828,524)</u>	<u>(\$560,792)</u>	<u>\$267,732</u>

The accompanying notes are an integral part of these financial statements.

OTHER SUPPLEMENTAL INFORMATION

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
OTHER SUPPLEMENTAL INFORMATION
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS				CAPITAL PROJECT FUNDS							
Food Service	Athletics	1997 Energy		1988 Building		1979 Building		2005 School & Building		Durant Projects	Energy Bonds	Technology Equipments	Other Capital Improvements	Sinking Fund	Total
		Debt		Debt		Debt		Bond							
\$318	\$0	\$127,201	\$200	\$62,629	\$1,716	\$215,971	\$571	178,456	\$108,475	\$0				\$695,537	
0	0	0	0	0	0	0	0	0	0	81,667				81,667	
94,815	624	513	0	252	113,148	869	2	862	436	340,538				552,059	
39,700	6,940	0	40,776	0	61,708	56,603	10,690	0	2,082	344,648				563,147	
\$134,833	\$7,564	\$127,714	\$40,976	\$62,881	\$176,572	\$273,443	\$11,263	\$179,318	\$110,993	\$766,853				\$1,892,410	
\$0	\$0	\$0	\$0	\$0	\$0	\$84,987	\$0	\$12,399	\$0	\$0				\$97,386	
124,833	0	41,210	0	65,558	0	0	0	452,210	0	0				683,811	
124,833	0	41,210	0	65,558	0	84,987	0	464,609	0	0				781,197	
0	0	86,504	40,976	(2,677)	0	0	0	0	0	0				124,803	
0	0	0	0	0	0	0	0	(285,291)	0	0				(285,291)	
0	0	0	0	0	0	0	11,263	0	0	0				11,263	
0	0	0	0	0	0	0	0	0	0	766,853				766,853	
0	0	0	0	0	0	188,456	0	0	0	0				188,456	
0	0	0	0	0	176,572	0	0	0	0	0				176,572	
0	0	0	0	0	0	0	0	0	110,993	0				110,993	
10,000	7,564	0	0	0	0	0	0	0	0	0				17,564	
10,000	7,564	86,504	40,976	(2,677)	176,572	188,456	11,263	(285,291)	110,993	766,853				1,111,213	
\$134,833	\$7,564	\$127,714	\$40,976	\$62,881	\$176,572	\$273,443	\$11,263	\$179,318	\$110,993	\$766,853				\$1,892,410	

ASSETS

Cash & Investments
Restricted Assets
Receivables - Net
Due from Other Funds

Total Assets

LIABILITIES AND FUND BALANCES

Liabilities

Accounts Payable
Due to Other Funds
Total Liabilities

Fund Balances

Reserved for:
Debt Service
Designated for:
Technology Equipments Projects
Energy Bond Projects
Sinking Fund Projects
Durant Project
2005 School & Building Bonds
Other Capital Projects
Unreserved - Undesignated - Reported in Special Revenue Funds

Total Fund Balances

Total Liabilities and Fund Balances

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
OTHER SUPPLEMENTAL INFORMATION
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds			Debt Service Funds			Capital Project Funds					
				1997	1988	1979	2005					
	Food Service	Athletics		Energy Debt	Building Debt	Building Debt	School & Bond	Durant Projects	Energy Bonds	Technology Equipments	Other Capital Improvements	Sinking Fund
												Total
Revenue												
Local Sources	\$279,570	\$4,025	\$6,886	\$10	\$2,996	\$200,591	\$10,332	\$25	\$49,561	\$5,189	\$660,157	\$1,219,342
State Sources	58,962	0	0	0	0	0	0	0	0	0	0	58,962
Federal Sources	637,209	0	0	0	0	0	0	0	0	0	0	637,209
Total Revenue	975,741	4,025	6,886	10	2,996	200,591	10,332	25	49,561	5,189	660,157	1,915,513
Expenditures												
Current:												
Food Service	1,413,430	0	0	0	0	0	0	0	0	0	0	1,413,430
Athletics	0	419,362	0	0	0	0	0	0	0	0	0	419,362
Debt Service:												
Principal	0	0	625,000	0	0	55,000	0	0	0	0	0	680,000
Interest	0	0	151,661	0	0	102,388	0	0	0	0	0	254,049
Other	0	0	200	0	0	425	0	0	0	0	0	625
Capital Outlay	0	0	0	0	0	0	0	0	57,409	4,667	0	62,076
Total Expenditures	1,413,430	419,362	776,861	0	0	157,813	0	0	57,409	4,667	0	2,829,542
Excess of Revenue Over (Under)	(437,689)	(415,337)	(769,975)	10	2,996	42,778	10,332	25	(7,848)	522	660,157	(914,029)
Expenditures												
Other Financing Sources (Uses)												
Transfers In	436,372	416,253	776,000	0	0	0	0	0	0	0	0	1,628,625
Transfers Out	0	0	0	0	0	0	0	0	0	0	(776,000)	(776,000)
Net Changes in Fund Balances	(1,317)	916	6,025	10	2,996	42,778	10,332	25	(7,848)	522	(115,843)	(61,404)
Prior Period Adjustment	0	0	0	0	0	89,418	0	0	0	0	290,178	379,596
Fund Balances - Beginning of the Year	11,317	6,648	80,479	40,966	(5,673)	44,376	178,124	11,238	(277,443)	110,471	592,518	793,021
Fund Balances - End of the Year	\$10,000	\$7,564	\$86,504	\$40,976	(\$2,677)	\$176,572	\$188,456	\$11,263	(\$285,291)	\$110,993	\$766,853	\$1,111,213

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
OTHER SUPPLEMENTAL INFORMATION
SCHEDULE OF BONDED INDEBTEDNESS
JUNE 30, 2007**

<u>June 30</u>	<u>1997 Issue Principal</u>	<u>Durant-1999 Principal</u>	<u>2005 Issue Principal</u>
2008	\$660,000	\$0	\$70,000
2009	695,000	52,190	80,000
2010	0	321,399	90,000
2011	0	57,276	95,000
2012	0	60,001	105,000
2013-2017	0	62,859	650,000
2018-2022	0	0	820,000
2023-2027	0	0	870,000
2028-2031	0	0	700,000
	<u>\$1,355,000</u>	<u>\$553,725</u>	<u>\$3,480,000</u>
Total			
Principal payments due	May 1	May 15	May 1
Interest payments due	May 1 and November 1	May 15	May 1 and November 1
Interest rate	5.00% to 5.25%	4.76%	3.625% to 5.00%
Original issue	<u>\$6,270,000</u>	<u>\$937,778</u>	<u>\$3,580,000</u>

**SCHOOL DISTRICT OF THE
CITY OF HIGHLAND PARK
FEDERAL AWARDS
SUPPLEMENTAL INFORMATION
YEAR ENDED JUNE 30, 2007**

**SCHOOL DISTRICT OF THE
CITY OF HIGHLAND PARK**

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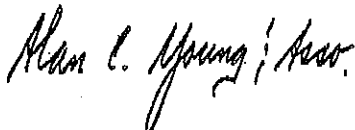
INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
School District of the City of
Highland Park

We have audited the general purpose financial statements of the School District of the City of Highland Park for the year ended June 30, 2007 and have issued our report thereon dated November 15, 2007. Those general purpose financial statements are the responsibility of the management of the School District of the City of Highland Park. Our responsibility was to express an opinion on those general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the School District of the City of Highland Park taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of financial statements federal revenue with schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



November 15, 2007

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
School District of the City of
Highland Park

We have audited the financial statements of the School District of the City of Highland Park as of and for the year ended June 30, 2007 and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School District of the City of Highland Park's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District of the City of Highland Park's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Highland Park's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards
(Continued)**

Internal Control over Financial Reporting (Cont.)

We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 thru 2007-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider all three items to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District of the City of Highland Park's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District of the City of Highland Park in a separate letter dated November 15, 2007.

This report is intended solely for the information and use of the Board of Education, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young, Assoc.

November 15, 2007

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
School District of the City of
Highland Park

Compliance

We have audited the compliance of the School District of the City of Highland Park with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2007. The School District of the City of Highland Park's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District of the City of Highland Park's management. Our responsibility is to express an opinion on the School District of the City of Highland Park's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District of Highland Park's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District of the City of Highland Park's compliance with those requirements.

**Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
(Continued)**

Compliance (Cont.)

As described in item 2007-4 to 2007-23 in the accompanying schedule of findings and questioned costs, the School District of the City of Highland Park did not comply with requirements as described in the schedule of findings and questioned costs that are applicable to its Children Nutrition Cluster, Title I, Title II, 21st Century Learning Centers and IDEA Flowthrough. Compliance with such requirements is necessary, in our opinion, for the School District of the City of Highland Park to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the School District of the City of Highland Park did comply, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the School District of the City of Highland Park is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District of the City of Highland Park's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District of the City of Highland Park's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weakness as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and other that we consider to be material weaknesses.

**Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133
(Continued)**

Internal Control Over Compliance (Cont.)

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-4, 2007-5, 2007-6, 2007-8, 2007-10, 2007-17 and 2007-19 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs we consider items 2007-4, 2007-5, 2007-6, 2007-8, 2007-17 and 2007-19 to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Alan L. Young; Asst.

November 15, 2007

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) revenue at July 1, 2006	Federal Funds 06-07 Pymts received	Adjustment	Expenditures	Accrued (Deferred) revenue at June 30, 2007
Clusters:								
Child Nutrition Cluster-U.S. Department of Agriculture through the Michigan Department of Education:								
Summer Food Services Program	10.559							
2005-2006		\$9,802	\$9,802	\$9,802	\$9,802	\$0	\$0	\$0
2006-2007		37,932	0	0	37,932	0	37,932	0
Total Summer Food Service Program		47,734	9,802	9,802	47,734	0	37,932	0
National School Breakfast Program:	10.553							
2005-2006		81,432	81,432	3,921	3,921	0	0	0
2006-2007		78,363	0	0	62,963	0	78,363	15,400
Total National School Breakfast Program		159,795	81,432	3,921	66,884	0	78,363	15,400
National School Lunch Program	10.555							
2005-2006		443,612	443,612	21,957	21,957	0	0	0
2006-2007		452,298	0	0	377,299	7,014	445,284	74,999
National School Lunch Snacks:								
2005-2006		1,551	1,551	0	0	0	0	0
Total National School Lunch Program		897,461	445,163	21,957	399,256	7,014	445,284	74,999
Total Child Nutrition Cluster		1,104,990	536,397	35,680	513,874	7,014	561,579	90,399
Special Education Cluster-U.S. Department of Education through the Wayne County RESA	84.027							
IDEA								
Flowthrough carryover 2001-2002		47,653	46,128	(1,516)	0	1,516	0	0
Flowthrough 2002-2003		466,994	449,905	(17,087)	0	17,087	0	0
Special Education Professional Development 02/03		1,750	1,331	(43)	0	43	0	0
Flowthrough 2005-2006		597,400	493,691	43,073	87,042	0	103,709	59,740
Flowthrough 2006-2007		585,324	0	2,499	354,399	0	517,799	163,400
Transition Services Mini Grant 05/06		5,000	2,499	2,499	0	0	0	0
Transition Services Mini Grant 06/07		5,000	0	0	0	0	497	497
Total IDEA		1,709,121	993,554	26,926	443,940	18,646	622,005	223,637
SPSR	84.027A							
SPSR-060440 Continuous Improvement system monitor		4,400	4,400	4,400	4,400	0	0	0
Total SPSR		4,400	4,400	4,400	4,400	0	0	0
Preschool Incentive:	84.173							
Project Number 0461		17,616	12,582	(1,618)	0	1,618	0	0
Preschool 2001-2002		12,300	11,171	(1,129)	0	1,129	0	0
Preschool Carryover 2001-2002		787	779	(660)	0	660	0	0
Preschool 2005-2006		4,002	4,002	400	400	0	0	0
Total Pre School Incentive		34,705	28,534	(3,007)	400	3,407	0	0
Total Special Education Cluster		\$1,748,226	\$1,026,488	\$28,319	\$448,740	\$22,053	\$622,005	\$223,637

SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2007

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) revenue at July 1, 2006	Federal Funds 06-07 Pymts received	Adjustments	Expenditures	Accrued (Deferred) revenue at June 30, 2007
JPTA Cluster - U.S. Department of Labor -Passed through Wayne County-Job Training Partnership Act-1999-2000	17.250	\$42,273	\$42,273	(\$15,594)	\$0	\$15,594	\$0	\$0
Other Federal Awards								
U.S. Department of Education - Passed through the Wayne County ISD								
21st Century Community Learning Centers:	84.287							
Project number 05211021ST02069		750,000	499,308	112,429	112,429	0	0	0
Project number 06211021ST02017		750,000	0	0	472,494	0	673,771	201,277
Total 21st Century Community Learning Grant		1,500,000	499,308	112,429	584,923	0	673,771	201,277
Total Non Cluster Direct Program		1,500,000	499,308	112,429	584,923	0	673,771	201,277
Passed Through the Michigan Department of Education								
Title 1:	84.010							
Project number 051550 0506		150,000	42,792	24,562	81,347	780	56,005	0
Project number 051530 0506		328,187	328,187	327	327	0	0	0
Project number 051530 0607		611,754	0	0	0	0	611,754	611,754
Project number 061530 0506		2,832,009	1,234,181	471,430	1,457,504	0	986,074	0
Project number 071530 0607		2,690,408	0	0	1,062,063	0	1,163,178	101,115
Total Title I		6,612,358	1,605,160	496,319	2,601,241	780	2,817,011	712,869
Goals 2000 Professional Development	84.276	25,000	0	(339)	0	839	0	0
Project number 4226-4C								
Title II A Improving Teachers Quality	84.367							
Project number 050520 0506		259,716	99,510	6,646	6,646	0	0	0
Project number 060520 0506		498,078	1,269	304	24,682	0	23,878	0
Project number 060520 0607		472,931	0	0	88,860	0	471,949	385,089
Project number 070520 0607		482,434	0	0	109,181	0	87,250	(21,931)
Total Title IIA		1,713,219	100,779	7,450	227,369	0	583,077	363,158
Technology Literacy Grant	84.318							
Project number 054230 0506		36,853	12,814	6,143	6,143	0	0	0
Project number 064230 0506		52,833	1,435	(33)	20,695	3,069	17,659	0
Project number 064230 0607		30,670	0	0	1,197	0	21,333	20,136
Project number 064230 0607		27,617	0	0	0	0	0	0
Total Technology Literacy Challenge Grants		147,973	14,249	6,110	28,035	3,069	38,992	20,136
Title V	84.298							
Project number 050250 0405		56,527	8,205	(550)	0	550	0	0
Project number 050250 0506		49,983	35,156	4,517	4,517	0	0	0
Project number 060250 0506		30,563	20,022	3,925	10,087	0	4,264	(1,898)
Project number 060250 0607		4,379	0	0	316	0	2,997	2,681
Project number 070250 0607		16,202	0	0	2,525	0	9,125	6,600
Total Title V		157,654	63,383	7,892	17,445	550	16,386	7,383
Total Noncluster Programs Passed through the Michigan Department of Education		\$8,631,204	\$1,783,571	\$517,771	\$2,874,090	\$4,399	\$3,455,466	\$1,103,546

SCHOOL DISTRICT OF HIGHLAND PARK
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS (Continued)
YEAR ENDED JUNE 30, 2007

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) revenue at July 1, 2006	Federal Funds 06-07 Pymts received	Adjustment	Expenditures	Accrued (Deferred) revenue at June 30, 2007
Passed through the Wayne County ISD Title VI Teachers Minigrant	84.298	\$1,710	\$839	(\$771)	\$0	\$771	\$0	\$0
Vocational Education Basic Grants to State (Perkins II)	84.048							
Project number 2003-2004		32,367	30,133	(3,007)	0	3,007	0	0
Project number 2004-2005		34,132	26,901	(6,746)	0	6,746	0	0
Total Vocational Education		66,499	57,034	(9,753)	0	9,753	0	0
Total Noncluster Programs passed through the Wayne County ISD		68,209	57,973	(10,524)	0	10,524	0	0
Total US Department of Education Noncluster Programs		8,699,413	1,841,544	507,247	2,874,090	14,923	3,455,466	1,103,546
Child Care Food Program	10.558							
Project 2005-2006		26,217	26,217	5,045	5,045	0	0	0
Project 2006-2007		27,725	26,217	5,045	26,905	3,176	27,725	3,996
Total Child Care Food Program		53,942	26,217	5,045	31,950	3,176	27,725	3,996
Food Distribution	10.550							
Entitlement Commodities 2005-2007		44,970	0	0	44,970	0	44,970	0
Bonus Commodities 2006-2007		2,936	0	0	2,936	0	2,936	0
Total Food Distribution		47,906	0	0	47,906	0	47,906	0
U.S. Department of Health and Human Services Passed through the Wayne County RESA Head Start Project number 05CH5143- 1999-2000	93.600							
323,569		0	0	(90)	0	90	0	0
U.S. Department of Defense AF JROTC	12.Unknown							
49,422		49,422	4,515	44,741	1	40,225	0	0
U.S. Department of Labor School to work 1999-2000 Pack II 1998-1999								
40,344		0	(308)	0	308	0	0	0
100,405		0	(328)	0	328	0	0	0
Total U.S. Department of Labor		140,749	0	(636)	0	636	0	0
Total Federal Awards Expenditures		\$13,735,490	\$4,021,649	\$676,076	\$4,546,224	\$94,326	\$5,428,677	\$1,622,855

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
RECONCILIATION OF BASIC FINANCIAL STATEMENTS
FEDERAL REVENUE WITH SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

Revenue from federal Sources - As reported on financial statements (includes all funds)	\$5,345,260
Federal revenue deferred on the basic financial statements under GASB Statement No. 33 at June 30, 2006	(98,094)
Federal revenue deferred on the basic financial statements under GASB Statement No. 33 at June 30, 2007	181,511
	<hr/>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$5,428,677</u></u>

See Notes to Schedule of Expenditures of Federal Awards.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007**

1) SIGNIFICANT ACCOUNTING PRINCIPLES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the School District of the City of Highland Park. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2) NONCASH ASSISTANCE

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133.

3) GRANT SECTION AUDITOR'S REPORT

Management has utilized the Form R-7120 and Grant Auditors' Report in preparing the Schedule of Expenditures of Federal Awards. Unreconciled differences, if any, have been disclosed to the auditor.

4) ADJUSTMENTS

During the year ended June 30, 2007, the School District had a total net adjustment of \$64,326. These adjustments were the result of \$7,014 adjusted by the State against prior year grants, \$3,176 adjusted by the School District against prior year expenditures and \$54,136 in transferring the deferred revenue amount to grant funds payable.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant Deficiencies identified that are not Considered to be material weaknesses? Yes X No
- Non-Compliance material to financial Statements noted? Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? X Yes No
- Significant Deficiencies identified that are not Considered to be material weakness? X Yes No

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

 X Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010	Title I
10.553, 10.555 & 10.559	Child Nutrition Cluster
84.367	Title II A
84.027 & 84.173	Special Education Cluster
84.287	21 st Century Community Learning Centers

Dollar threshold used to distinguish between type A and B programs: \$300,000

Auditee qualified as low risk auditee?

 Yes X No

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

Reference Number	Findings
2007-1	<p>Finding Type – Significant Deficiency and Material Weakness</p> <p>Condition and Description – Due to supporting information being received untimely by the business office and other workload constraints, significant adjustments were made to the general ledger well after year-end to post transactions and close the books and records. Bank reconciliations were not prepared timely or reviewed throughout the year and duties were not adequately segregated to record, process and reconcile certain cash receipts and wire transfer transactions. Journal entries were not reviewed by any responsible person other than the originator. As a result there is a risk of errors not being detected, or not being detected on a timely basis.</p> <p>Recommendation – The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

Section II - Financial Statement Audit Findings – (Continued)

**Reference
Number**

Findings

2007-2

Finding Type – Significant Deficiency and Material Weakness

Condition and Description – Our testing in the area of cash receipts revealed that the District is not making daily deposits of cash to the bank. In the food service programs, there is no reconciliation done between actual cash received and the daily food distribution logs and the cash deposited in bank. This practice opens the District to the threat of a loss of cash.

Recommendation – To strengthen internal controls in this area, we recommend that during times of heavy cash inflow, deposits to the bank be made on a daily basis. Further, the Food Service Director should reconcile the cash collected with the daily food distribution logs and should maintain schedules of deposits given to the Business Office which should be compared to, and agreed to, the revenue recorded in these funds. These additional procedures should be completed by both the Business office as well as the respective directors in order to fully review and track the flow of cash within the District.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007**

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS – (Continued)

**Reference
Number**

2007-3

Findings

Finding Type – Significant Deficiency and Material Weakness

Condition and Description – During our audit we noted that the District does not have a consistent system of performing a physical inventory of fixed assets. This is a weakness in the system of controls and has the potential for allowing discrepancies to exist and not be detected.

Recommendation – We recommend the District perform a periodic physical inventory of fixed assets with the results to be reviewed and reconciled to the subsidiary ledger and to the general ledger with any discrepancy investigated and explained.

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

Reference Number	Findings
2007-4	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Significant Deficiency, Material Weakness and Material Noncompliance</p> <p>Criteria – Each application received by the School District is required to be reviewed for eligibility and proper classification. Updated applications must be on file by October 1 of each year and the application must be from the current school year.</p> <p>Condition – There were three instances from a sample of 30 students in which the student classification was incorrect based upon the completed application. The students were classified as paid and should have been free. In one instance from the sample of 30 students, the application was not filled properly. In one instance from the sample of 30 students the supporting documents were unavailable for verification.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Applications supporting eligibility and classification should be reviewed for accuracy and be for the school year in which the meal is being served.</p> <p>Recommendation – The School District should implement a procedure to review applications and ensure they are for the recent fiscal year and are accurate as to classification.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-5	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Significant Deficiency, Material Weakness and Material Noncompliance</p> <p>Criteria – Each monthly reimbursement claim (form SM-4012-SL) for meal count served should tie to the daily student roster (School tally reports).</p> <p>Condition –The meal counts charged in the monthly reimbursement claims did not match with the actual supporting documents in the case of one month tested for one of the schools in the Lunch Program for the School District.</p> <p>Questioned Costs – \$52,846</p> <p>Cause/Effect – The reimbursement claims were not tying with the supporting documents.</p> <p>Recommendation – The School District should maintain adequate supporting documentation to match with the reimbursement claims submitted to the Agency.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-6	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Significant Deficiency, Material Weakness and Material Noncompliance</p> <p>Criteria – Production records must be kept on a daily basis and should document the food items served.</p> <p>Condition – There were four instances from a sample of 15 meals in which the production records did not match with the menu. In all other 11 instances, production records were not provided for our review.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – The production records either did not match with the menu or lacked supporting documentation. As a result, it cannot be determined if proper production records were maintained.</p> <p>Recommendation – The School District should implement a procedure to ensure that the production records are maintained and food is produced and served per menu specifications.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-7	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material Noncompliance</p> <p>Criteria – The monthly Claim for Reimbursement report (SM-4012-SL) must be submitted by the 10th of the month.</p> <p>Condition – For 9 out of 10 months, the District did not submit the required Monthly Claim for Reimbursement report (SM-4012-SL) by the 10th of the month.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Lack of timely submission of reports could impact the timing and collectibility of payment.</p> <p>Recommendation – We recommend that the School District ensures that it complies with the reporting requirements as specified by the State.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-8	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Significant Deficiency, Material Weakness and Material Noncompliance</p> <p>Criteria – The Year-end report submitted to the State should reconcile to the monthly claim for reimbursement reports.</p> <p>Condition – Discrepancies were noted while reconciling the year end report with the monthly claim for reimbursement reports.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Lack of accurate submission of reports could impact the timing and collectibility of payment.</p> <p>Recommendation – We recommend that the School District ensures that it complies with the reporting requirements as specified by the State.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-9	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material Noncompliance</p> <p>Criteria – Menus must contain the required food components in the correct portion sizes for age/grade groups as established by the USDA.</p> <p>Condition – In 6 instances from a sample of 15, supporting documents were not provided to verify if the menus contained the required food components in the correct portion sizes for age/grade groups as established by the USDA.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to lack of supporting documentation, it could not be verified if the menus contained the required food components in the correct portion sizes for age/grade groups as established by the USDA.</p> <p>Recommendation – The School District should implement a procedure to ensure that the proper records are maintained and the menus contain the required food components in the correct portion sizes for age/grade groups as established by the USDA.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-10	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Significant Deficiency and Material Noncompliance</p> <p>Criteria – By December 15 of each school year, the School Food Authority must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the School Food Authority is otherwise exempt from the verification requirement.</p> <p>Condition – Supporting documents were not provided to verify if by December 15th of the school year, the School District had verified the current free and reduced price eligibility of households selected from a sample of applications that it had approved for free and reduced price meals, or if the School District was otherwise exempt from the verification requirement.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to lack of supporting documentation, it could not be verified if by December 15 of the school year, the School District had verified the current free and reduced price eligibility of households selected from as sample of applications that it had approved for free and reduced price meals, or if the School District was otherwise exempt from the verification requirement.</p> <p>Recommendation – The School District should implement a procedure to ensure that the proper records are maintained and income verification is done by December 15 of the School year.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-10	<p>Program Name – Summer Food Services, National School Breakfast, and National School Lunch</p> <p>CFDA Number – 10.559, 10.553, 10.555</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Significant Deficiency and Material Noncompliance</p> <p>Criteria – By December 15 of each school year, the School Food Authority must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the School Food Authority is otherwise exempt from the verification requirement.</p> <p>Condition – Supporting documents were not provided to verify if by December 15th of the school year, the School District had verified the current free and reduced price eligibility of households selected from a sample of applications that it had approved for free and reduced price meals, or if the School District was otherwise exempt from the verification requirement.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to lack of supporting documentation, it could not be verified if by December 15 of the school year, the School District had verified the current free and reduced price eligibility of households selected from as sample of applications that it had approved for free and reduced price meals, or if the School District was otherwise exempt from the verification requirement.</p> <p>Recommendation – The School District should implement a procedure to ensure that the proper records are maintained and income verification is done by December 15 of the School year.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-11	<p>Program Name – Special Education IDEA</p> <p>CFDA Number – 84.027</p> <p>Pass-through Entity – Wayne County RESA</p> <p>Finding Type – Noncompliance</p> <p>Criteria – The School District must spend a proportionate amount of its Flow through funds on parentally placed children with disabilities aged 3-21 in private schools.</p> <p>Condition – The School District did not provided the computation of its proportionate share requirement. Further the School District did not provide the summary of expenses for parentally placed children in private schools charged to the IDEA funds.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to lack of supporting documents it cannot be determined if the School District met this requirement.</p> <p>Recommendation – The School District should maintain all supporting documents to verify compliance with the requirement.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-12	<p>Program Name – Special Education IDEA</p> <p>CFDA Number – 84.027</p> <p>Pass-through Entity – Wayne County RESA</p> <p>Finding Type – Material Noncompliance</p> <p>Criteria – The expenditures from local funds incurred by the School District for the purpose of education of disabled children should at least be equal to expense incurred for the same purpose in the prior year.</p> <p>Condition – As per report SE-4096 filed by the School District for 2007 and 2006, the School District incurred lower expenditures from local funds for the purpose of education of disabled children than the expenditure for the same purpose in the prior year.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Non Compliance could impact the future funding under this program.</p> <p>Recommendation – We recommend that the School District ensures that it complies with the level of effort requirement.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-13	<p>Program Name – Special Education IDEA</p> <p>CFDA Number – 84.027</p> <p>Pass-through Entity – Wayne County RESA</p> <p>Finding Type – Material Noncompliance</p> <p>Criteria – The School District must submit to the MDE the prior year DS-4044 expenditure report during the current fiscal year.</p> <p>Condition – A copy of the prior year DS-4044 expenditure report was unavailable for verification. Further, the expenditures reported on the Special Education Expenditure Report (SE-4096) did not match with the expenditures reported in General Ledger.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to the lack of a prior year DS-4044 report, it could not be determined if the School District met the reporting requirement.</p> <p>Recommendation – The School District should maintain all supporting documents to verify compliance with the requirement.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007**

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS (Continued)

Reference Number	Findings
2007-14	<p>Program Name – Title II</p> <p>CFDA Number – 84.367</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material Noncompliance</p> <p>Criteria – As per the Michigan School Auditing Manual, cash should not be drawn down in excess of three days needs. Unspent amounts must be refunded to the Department of Education.</p> <p>Condition – During our testing of the cash management requirement, we determined that the School District had excess cash not utilized within three days of the drawdown.</p> <p>Questioned Costs – \$21,931</p> <p>Cause/Effect – Adjustments were made in the Title II general ledger expenditure account subsequent to the cash drawdown. Improper drawdowns constitute noncompliance and result in potential disallowance of costs.</p> <p>Recommendation – We recommend the School District request cash based on actual expenditures and any excess cash not utilized be refunded to the department.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS (Continued)

Reference Number	Findings
2007-15	<p>Program Name – Title I, 21st Century Community Learning Center, Title II</p> <p>CFDA Number – 84.010, 84.287, 84.367</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Noncompliance.</p> <p>Criteria – The School District must maintain documentation that an invitation was extended to private schools in the area to participate on an equitable basis in the services being received from the grant award.</p> <p>Condition – The School District could not provide documentation of communication sent to private schools in the area.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – The acceptance or denial of the private schools to participate in the grant was unable to be determined due to a lack of supporting documentation.</p> <p>Recommendation – We recommend the School District maintain proper supporting documentation of communication sent to private schools as well as documentation of their acceptance or denial for each applicable grant.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-16	<p>Program Name – Title I</p> <p>CFDA Number – 84.010</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Noncompliance.</p> <p>Criteria – Title I recipients are required to offer services in schools or attendance areas that are comparable and equivalent to services in each school receiving funding. This ratio is documented via a biannual comparability report.</p> <p>Condition – The School District could not provide supporting documentation for the number of students enrolled and the number of students from low income families in the comparability worksheet.</p> <p>Questioned Costs – None</p> <p>Cause/Effect – Equitable services using Title I funding could not be verified due to unavailability of supporting documents.</p> <p>Recommendation – We recommend the School District maintain supporting documents to verify the comparability report.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-17	<p>Program Name – Title I</p> <p>CFDA Number – 84.010</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Significant Deficiency, Material Weakness and Material Noncompliance</p> <p>Criteria – Allocation of Title 1 funds to eligible schools should be based on supporting data in compliance with Title 1 formula.</p> <p>Condition – Supporting documentation was not provided for our review to verify the Allocation of Title 1 funds based on free / reduced meal counts.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to a lack of supporting documentation, it could not be determined if Title 1 funds were properly allocated to individual schools.</p> <p>Recommendation – We recommend the School District allocate Title I funds to eligible schools based on supporting data in compliance with the Title I formula.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-18	<p>Program Name – Title I, 21st Century Community Learning Center, IDEA</p> <p>CFDA Number – 84.010, 84.287, 84.027</p> <p>Pass-through Entity – Michigan Department of Education Wayne County RESA</p> <p>Finding Type – Noncompliance</p> <p>Criteria – Districts that classify their buildings as being school wide programs must ensure that at least 40 percent of the children enrolled in the school or residing in the school attendance area in the initial year of the school wide program must be from low-income families.</p> <p>Condition – Supporting documentation was not provided for our review to determine if in the initial year of the school wide program, at least 40% of the children enrolled in the School District or residing in the school attendance area are from low income families.</p> <p>Questioned Costs – None</p> <p>Cause/Effect – Due to lack of supporting documentation, it could not be determined if all schools under the school wide program met the requirement to operate a School Wide Program.</p> <p>Recommendation – We recommend the School District maintain supporting documents to ensure compliance with the requirement.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings						
2007-19	<p>Program Name – 21st Century Community Learning Center, Title I, IDEA</p> <p>CFDA Number – 84.287, 84.010, 84.027</p> <p>Pass-through Entity – Michigan Department of Education Wayne County RESA</p> <p>Finding Type – Significant Deficiency, Material Weakness and Material Noncompliance</p> <p>Criteria – Documentation must be obtained and retained for all employees to support their time spent on the program.</p> <p>Condition – Semi-Annual certificates or time sheets were not provided to support the time charged to the program.</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 60%;">Questioned Costs – Title I</td><td style="text-align: right;">\$1,211,017</td></tr> <tr> <td style="padding-left: 40px;">IDEA</td><td style="text-align: right;">\$243,408</td></tr> <tr> <td style="padding-left: 40px;">21st Century Community Learning Center</td><td style="text-align: right;">\$188,951</td></tr> </table> <p>Cause/Effect – Due to lack of semi-annual certificates for full time employees and signed time logs for part time employees, the actual time spent on the program could not be verified.</p> <p>Recommendation – We recommend the School District obtain semi-annual certificates for employees working full time on the program to support their time charged under these grants and also properly maintain time logs to support hours worked.</p>	Questioned Costs – Title I	\$1,211,017	IDEA	\$243,408	21 st Century Community Learning Center	\$188,951
Questioned Costs – Title I	\$1,211,017						
IDEA	\$243,408						
21 st Century Community Learning Center	\$188,951						

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-20	<p>Program Name – 21st Century Community Learning Center</p> <p>CFDA Number – 84.287</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Noncompliance.</p> <p>Criteria – The final expenditure report (DS-4044) should reflect true and accurate representation of the grant expenditures incurred in the grant period.</p> <p>Condition – The amounts reported on the final expenditure report submitted to the department were inaccurate.</p> <p>Questioned Costs – None</p> <p>Cause/Effect – The School District inadvertently reported expenditures incurred after year end in the final expenditure report submitted to the Department.</p> <p>Recommendation – We recommend the School District report accurate expenditures in their final expenditure reports submitted to the Department.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-21	<p>Program Name – Title II</p> <p>CFDA Number – 84.367</p> <p>Pass-through Entity – Michigan Department of Education</p> <p>Finding Type – Material Noncompliance.</p> <p>Criteria – To be eligible to receive a sub grant of Title II the School District must conduct an assessment of local needs for professional development and hiring as identified by the District and School Staff.</p> <p>Condition – Supporting documentation was not provided for our review to verify that the District performed the needs assessment as required under the compliance.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Noncompliance with grant requirements could affect the future funding of the program.</p> <p>Recommendation – We recommend the School District maintain supporting documentation and comply with the requirements of the grant.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-22	<p>Program Name – Special education IDEA</p> <p>CFDA Number – 84.027</p> <p>Pass-through Entity – Wayne County RESA</p> <p>Finding Type – Noncompliance.</p> <p>Criteria – The amount of IDEA-B funds used in a schoolwide program may not exceed the amount received by the School District under IDEA-B for that fiscal year divided by the number of children in the jurisdiction of the School District multiplied by the number of children participating in the schoolwide program.</p> <p>Condition – The School District did not provide the computation for the amount of IDEA-B funds used in a schoolwide program.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to lack of supporting documents it could not be determined if the School District met this requirement.</p> <p>Recommendation – The School District should maintain all supporting documents to verify compliance with the requirement.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CURRENT YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS – (Continued)

Reference Number	Findings
2007-23	<p>Program Name – Special education IDEA</p> <p>CFDA Number – 84.027</p> <p>Pass-through Entity – Wayne County RESA</p> <p>Finding Type – Noncompliance.</p> <p>Criteria – The School District can use not more than 15 percent of the amount of Federal funds, in combination with other funds, for early intervening services for children in kindergarten through grade 12 who have not been identified under IDEA but need additional academic and behavioral support to succeed in the general education environment.</p> <p>Condition – Supporting documentation was not provided for our review to verify if the School District complied with the requirement.</p> <p>Questioned Costs – Unknown</p> <p>Cause/Effect – Due to lack of supporting documents it could not be determined if the School District met this requirement.</p> <p>Recommendation –The School District should maintain all supporting documents to verify compliance with the requirement.</p>

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2007**

Reference Number	Findings
2006-1:	Condition and Description – Due to supporting information being received untimely by business office and other workload constraints, significant adjustments were made to the general ledger well after the year end to post transactions and close the books and records. Bank reconciliations were not prepared timely or reviewed throughout the year and duties were not adequately segregated to record, process and reconcile certain cash receipts and wire transfer transactions. Journal entries were not reviewed by any responsible person other than the originator. As a result there is a risk of errors not being detected, or not being detected on a timely basis.
Status:	This condition still existed in FY 2007. See finding 2007-1
2006-2:	The School District could not provide documentation of letters being sent to private schools in the area other than one institution.
Status:	This condition still existed in FY 2007. See finding 2007-15
2006-3:	In the Title 1 program, the School District could not provide documentation that a comparability report was completed to support equivalent Title I services being received by each building.
Status:	No similar finding in 2007.
2006-4:	In the Title 1 program, the School District could not provide documentation of the participation of teachers, principals and parents in the planning of programs for this grant in 4 out of 5 schools. For the Fifth school no participation of teachers, principals and parents is taken in the planning of programs to be paid for under this grant.
Status:	No similar finding in 2007.
2006-5:	In the Title 1 program, the School District could not provide documentation to determine if the expenditures incurred were in accordance with the individual school wide plan.
Status:	No similar finding in 2007.
2006-6:	Allocation of Title 1 funds based on free / reduced meal counts did not agree to the actual free / reduced counts submitted on the monthly claim report.
Status:	This condition still existed in FY 2007. See finding 2007-17

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

- 2006-7:** The School District could not provide documentation to determine if in the initial year of the school wide program, at least 40% of the children enrolled in the school or residing in the school attendance area were from low income families.
- Status:** This condition still existed in FY 2007. See finding 2007-18
- 2006-8:** In the 21st Century program, the school District could not provide documentation that budget amendments in excess of 10 percent were approved by the grantor.
- Status:** No similar finding in 2007.
- 2006-9:** In the IDEA and 21st Century programs, the School District could not provided the Semi-Annual certificates or time logs to support their time charged to the program.
- Status:** This condition still existed in FY 2007. See finding 2007-19
- 2006-10:** In the IDEA program, the School District could not provided the DS-4044 expenditure report for our review.
- Status:** This condition still existed in FY 2007. See finding 2007-13
- 2006-11:** In the Food Services Program there was an instance in which the student's classification was incorrect based upon the completed application.
- Status:** This condition still existed in FY 2007. See finding 2007-4
- 2006-12:** In the Food Services Program the School District could not provide the "Benefit Issuance" list to determine if the approved names at point of service matched the approved applications on file.
- Status:** No similar finding in 2007.
- 2006-13:** In the Food Services Program the meal counts charged in the monthly reimbursement claims did not match with the actual supporting documents in either of the months tested.
- Status:** This condition still existed in FY 2007. See finding 2007-5
- 2006-14:** In the Food Services Program there were instances where the production records did not match with the menu or the School District could not provide the production records for review.
- Status:** This condition still existed in FY 2007. See finding 2007-6

**SCHOOL DISTRICT OF THE CITY OF HIGHLAND PARK
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATUS OF PRIOR YEAR FINDINGS
YEAR ENDED JUNE 30, 2007
(Continued)**

2006-15: In the Food Services Program there were instances where the School District did not submit the required Monthly Claim for Reimbursement report (SM-4012-SL) by the 10th of the Month.

Status: This condition still existed in FY 2007. See finding 2007-7

2006-16: The 21st Century Program did not start on time for the year and hence the School District did not make use of the funds available to them from the beginning of the fall semester.

Status: No similar finding in 2007.

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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November 15, 2007

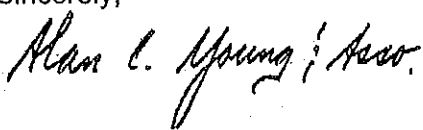
To the Board of Directors of
School District of the City of Highland Park
Highland Park, Michigan

In planning and performing our audit of the basic financial statements of the School District of the City of Highland Park (the District) for the year ended June 30, 2007, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Exhibit A, which accompanies this letter, summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated November 15, 2007, on the financial statements of the District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



Alan C. Young & Associates, P.C.
Certified Public Accountants

EXHIBIT A

1) UNDER STAFFED ACCOUNTING DEPARTMENT

Based upon our observations during the audit, it is our opinion that the School District's accounting department is currently understaffed. As a result, certain accounting duties have been seriously neglected and current processing of accounting transactions does not occur. Timely financial statements are critical to enable effective management for the School District.

We recommend that the District consider hiring an additional full or part – time employee to assist in the accounting function and accounting processes be brought up to date and kept on a current basis.

2) COMINGLING OF FUNDS

During the course of our audit, we noted that certain District Debt Service and Capital Project funds had interfund receivable balances ranging from approximately \$2,000 to \$100,000.

We strongly suggest that due to the nature of these funds, the District should not transfer monies from these funds to finance other District activities.

3) COORDINATION BETWEEN GRANT COORDINATOR AND MANAGEMENT

We noted that there was lack of coordination between the personnel in charge of various grants and the business office management related to grant expenditures, compliance and budgeting.

We recommend the District develop procedures to ensure better coordination between the grant coordinator and business office management related to operation of the grants.

4) EMPLOYEE DISHONESTY BOND

During our audit procedures we noted that the employee dishonesty coverage is \$100,000.

The cost of maintaining internal controls sufficient to prevent all losses from employee dishonesty is prohibitive. With the size of the District's operation, and the amount of money involved, we recommend the District strongly consider increasing its current coverage amount of \$100,000.

5) INTERNET SECURITY

During our audit we noted that the security over the District's internet appears to be weak.

In order to reduce the risk of access to computer files by unauthorized personnel, we recommend the District to set up passwords to restrict unauthorized access. In order to enhance controls in this area the passwords need to be changed on a regular basis.

6) DISASTER RECOVERY PLAN

Although the District has a written disaster recovery plan and backups of accounting system performed, we noted that the back up for accounting records is kept within the district premises. In the event of a disaster these accounting records would be lost and could lead to potential problems.

We recommend the district to include in their disaster recovery plan the location of, and access to, off-site storage, a listing of all data files that would have to be obtained from the off-site storage location and priority of critical applications and reporting requirements during the emergency period.

7) PAYROLL ADVANCE

During our audit we became aware that amounts paid to contractual employees in prior year and the amounts reflected on their W-2/1099s were incorrect. Payments were made to the employees through Accounts Payable instead of payroll and were not accurately reported on their W-2/1099s.

We recommend the District to issue the contractors 1099s for the full amount to reflect the correct earnings made by those employees during the year. This is also required to avoid any penalties from the IRS as well as for the true reflection of payroll.

8) DEFICIT IN FUND BALANCE

It was noted during our audit that Highland Park School District had a negative change in their fund balance. We strongly recommend that management and the board evaluate the reasons why this condition has occurred. Future plans and budgets should then be developed to produce a plan to avoid continuing deficits. Please be aware that continuation of these negative financial results can impact the type of audit opinion that can be issued in the future. This situation is critical and may very well impact the future ability of Highland Park School District to conduct its affairs in the manner it is accustomed to.

9) NEW INTERPRETATION OF DEFERRED COMPENSATION RULES

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can affect teachers and similar employees.

Under the IRS issued rule when employees elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation. Proper procedures need to be followed to avoid additional tax of 20 percent. In order to avoid additional taxes, the employees must give a written or electronic election to notify the employer regarding the spread out of compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid. These rules will be in effect for 2008-09 school year.

10) NEW AUDITING STANDARDS

Recently 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, they will have a significant impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach.

The AICPA has issued eight statements commonly referred to as the Risk Assessment Standards to improve the quality and effectiveness of audits. The new standards will result in an overall increased work effort by the auditors as they require auditors to obtain a more in-depth understanding of the District's operations and control environment and a more rigorous assessment of the risk of material misstatement of the financial statements.

11) EXPENSES IN EXCESS OF BUDGET

For the year ended June 30, 2007, the District's expenses exceeded the final budgeted level for instructional staff and support services. The District's total expenditures also exceeded total budgeted expenditures. Expenditures in excess of amounts budgeted are a violation of Michigan law.

We recommend that the School District improve their efforts to match their budgets with the appropriate expenditure areas.

**Alan C.
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November 15, 2007

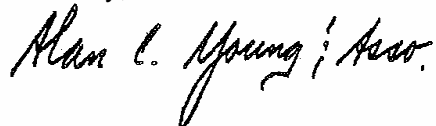
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We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

A handwritten signature in black ink that reads "Alan C. Young & Assoc." in a cursive, stylized script.

Alan C. Young & Associates, P.C.
Certified Public Accountants

1) **UNDER STAFFED ACCOUNTING DEPARTMENT**

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We recommend the District to issue the contractors 1099s for the full amount to reflect the correct earnings made by those employees during the year. This is also required to avoid any penalties from the IRS as well as for the true reflection of payroll.

8) **DEFICIT IN FUND BALANCE**

It was noted during our audit that Highland Park School District had a negative change in their fund balance. We strongly recommend that management and the board evaluate the reasons why this condition has occurred. Future plans and budgets should then be developed to produce a plan to avoid continuing deficits. Please be aware that continuation of these negative financial results can impact the type of audit opinion that can be issued in the future. This situation is critical and may very well impact the future ability of Highland Park School District to conduct its affairs in the manner it is accustomed to.

9) **NEW INTERPRETATION OF DEFERRED COMPENSATION RULES**

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can affect teachers and similar employees.

Under the IRS issued rule when employees elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation. Proper procedures need to be followed to avoid additional tax of 20 percent. In order to avoid additional taxes, the employees must give a written or electronic election to notify the employer regarding the spread out of compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid. These rules will be in effect for 2008-09 school year.

10) NEW AUDITING STANDARDS

Recently 10 new auditing standards have been released and will become effective over the District's next two fiscal years. In reviewing the new standards, we do not believe, they will have a significant impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach.

The AICPA has issued eight statements commonly referred to as the Risk Assessment Standards to improve the quality and effectiveness of audits. The new standards will result in an overall increased work effort by the auditors as they require auditors to obtain a more in-depth understanding of the District's operations and control environment and a more rigorous assessment of the risk of material misstatement of the financial statements.

11) EXPENSES IN EXCESS OF BUDGET

For the year ended June 30, 2007, the District's expenses exceeded the final budgeted level for instructional staff and support services. The District's total expenditures also exceeded total budgeted expenditures. Expenditures in excess of amounts budgeted are a violation of Michigan law.

We recommend that the School District improve their efforts to match their budgets with the appropriate expenditure areas.